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OSFI BSIF

Pillar

FROM THE OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS CANADA

Remarks by Acting Superintendent Julie Dickson to the House of Commons Standing Committee on Finance

Consideration of Bill C-37, February 19, 2007

Good afternoon, Mr. Chairman, members of the Committee.

Thank you for inviting the Office of the Superintendent of Financial Institutions (OSFI) to appear before you today to discuss Bill C-37 (An Act to amend the law governing financial institutions).

OSFI is the prudential regulator of federal financial institutions. Prudential means we are concerned with the safety and soundness of financial institutions, which contributes to the overall stability of the financial system. Our mandate does not extend to market conduct or consumer-related issues, which are the responsibility of other organizations both at the federal and provincial levels.

In short, OSFI supervises federal financial institutions to determine whether they are in sound financial condition and complying with legislation. We are required to promptly advise institutions when there are material deficiencies affecting safety and soundness and take, or require management and boards of directors to take, necessary corrective measures in an expeditious fashion.

We also promote the adoption of policies and procedures to control and manage risk with financial institutions, and monitor and evaluate system-wide or sectoral issues that may impact institutions negatively.

Regular legislative reviews provide an opportunity to ensure that Canadian legislation promotes an efficient, competitive and safe financial services sector.

(cont'd page 2)

OSFI Plan and Priorities, 2007-2010

Each year, OSFI produces a three-year planning document, referred to as the Plan and Priorities. The 2007-2010 iteration of the OSFI Plan and Priorities was recently released. Major priorities for this planning cycle include: Basel II implementation for banks; in-depth review of life insurance capital rules (MCCSR); adoption of international accounting rules (International Financial Reporting Standards); an assessment of Canada's financial system by the IMF/World Bank; a focus on HR issues; and pensions (internal systems and people).

To view the complete planning document, visit the OSFI Web site at: www.osfi-bsif.gc.ca

Amended Guideline D-10

Accounting for Financial Instruments Designated as Fair Value Option

In June 2006, OSFI issued Guideline D-10 in response to the introduction of the Fair Value Option in CICA Handbook section 3855, Financial Instruments - Recognition and Measurement. Guideline D-10 provides additional guidance on assessing whether fair values are reliable and consistent, and whether those values are based on sound internal management practices.

Subsequent to the issuance of Guideline D-10, financial institutions raised some issues in respect of the accounting for loans with the intent of reselling for profit. These loans would not qualify to use the Fair Value Option and would essentially create a different accounting treatment compared to that of previous Canadian and current US and international GAAP.

OSFI consulted financial institutions and this work led to the identification of four situations where Guideline D-10 should be amended to allow the Fair Value Option to be applied to loans with intent for reselling for profit. Please refer to the section entitled: Using the Fair Value Option for Loans and Receivables for the amended guidance. This guidance is effective for the same period that the new accounting standard is adopted.

Questions concerning the Guideline should be addressed to Ms. Karen Stothers, Director, Accounting Policy Division at (416) 973-0744.

Acting Superintendent Julie Dickson recently addressed the Senate Standing Committee on Banking, Trade and Commerce, as part of their study of Hedge Funds

Jan. 31, 2007—"While OSFI does not currently have any concerns with the participation of Canadian financial institutions in hedge funds, activity in this area will continue to be evaluated as part of OSFI's ongoing supervisory process." - Julie Dickson

To view Julie Dickson's complete remarks, visit OSFI's Web site at: www.osfi-bsif.gc.ca

Consideration of Bill C-37

(continued from page 1)

In any legislative review, OSFI is interested in the following:

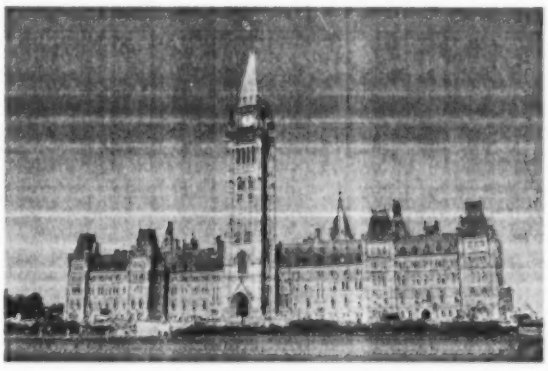
- whether proposed legislative changes increase risk to financial institutions, thus creating major prudential concerns;
- whether the legislation is clear (because we administer compliance with most provisions of the Act);
- whether OSFI has the authority it needs to act when necessary (i.e. whether the prudential toolkit needs to be enhanced); and
- whether regulatory burden can be eliminated in cases where it is clear that legislative requirements that may have been necessary at one point in time are no longer necessary from a prudential perspective.

In our judgment, Bill C-37 does not increase risk to financial institutions that we regulate. Further, Canada already has a framework with prudential tools that are consistent with international norms for strong regulatory regimes, thanks to changes introduced in previous legislative reviews. As a result, OSFI did not seek significant new prudential measures as part of this review.

However, there are several elements in Bill C-37 that would help us to be more effective because they would bring clarity to certain areas of the various Acts we administer, and would eliminate some legislative requirements that were no longer considered useful, thus cutting red-tape and regulatory burden.

A strong and efficient regulatory framework, one in which Canadians and those outside Canada can have a high degree of confidence, is critical to Canada's economic performance. In the opinion of OSFI, passage of Bill C-37 would help contribute to that confidence.

I would be pleased to answer any questions the Committee may have.



Statement by Nicolas Burbidge, to the Senate Standing Committee on Banking, Trade and Commerce

On consideration of Bill C-25, An Act to amend the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, December 6, 2006

Mr. Chairman, Honourable Members of the Committee:

I would like to thank you for this opportunity for the Office of the Superintendent of Financial Institutions (OSFI) to provide information as part of your consideration of Bill C-25.

I am the head of the group at OSFI responsible for our anti-money laundering and anti-terrorist financing (AML/ATF) program. Appearing with me is Mr. Keith Martin, who heads our AML/ATF assessment team. We are here today to say that OSFI strongly supports the passage of Bill C-25.

Early in the New Year, Canada's adherence to international AML standards will be reviewed by the Financial Action Task Force (FATF). The FATF is a multi-national body that sets international AML standards and uses a peer review system to evaluate implementation in member countries. OSFI has participated in the FATF review process, and we know the importance that will be attached to the contents of Bill C-25 in Canada's upcoming evaluation. A good review will be important to reinforce the perception that Canada is a safe place for financial transactions and investments. Strong AML programs are an important component of a safe and sound financial system.

Bill C-25 makes important changes that are specifically required by the FATF standards. These include:

- the requirement to report suspicious attempted transactions to FINTRAC;
- the requirement to identify the beneficial owners of clients that are corporations or other entities;
- the prohibition of account opening if the identity of the client cannot be established;
- the requirement to determine if a client is a politically exposed person;
- the requirement to apply enhanced customer due diligence to higher risk accounts and transactions;
- the enhanced identification requirements applicable to correspondent banking;
- the requirement to include certain customer information with electronic funds transfers, and;
- the requirement for Canadian financial institutions' foreign branches to have compliance regimes that meet the legislated Canadian standards and for foreign subsidiaries of Canadian operations to be subject to standards consistent with Canadian requirements.

These measures are not new to the federally regulated financial sector. Our larger banks already comply with similar measures in countries where these standards are already in place. As well, the FATF has had these standards in place for over three years, which has given the financial community ample time to prepare for the introduction of similar measures into our regulatory regime.

Nick Burbidge: "OSFI believes the enactment of Bill C-25 will result in Canada being viewed internationally as having a strong anti-money laundering regime."

For the reasons provided, Bill C-25 raises the bar significantly on AML standards in Canada, and it will require increased effort and resources by the financial sector to implement. While the higher standards set in Bill C-25 do come at a cost, we believe that the alternative would cost Canadians much more in the long run.

When we last appeared before the Committee in May, I reviewed OSFI's adherence to world banking and insurance supervision standards, which require the Office to be able to determine whether banks and federally regulated life insurers have adequate "know-your-customer" policies and procedures in place. OSFI will continue to work with our regulated entities to ensure these policies and procedures are robust enough to prevent financial institutions being used by criminal elements and terrorists.

In closing, OSFI believes the enactment of Bill C-25 will result in Canada being viewed internationally as having a strong anti-money laundering regime.

We would be happy to respond to any questions the Committee may have.

Earthquake Exposure Data Reminder

Property and Casualty companies that have earthquake exposure in British Columbia and Québec are reminded that they are required to file the Earthquake Exposure Data form with OSFI by April 15, 2007

Companies are asked to submit one copy of their completed form to the following address:

Patricia Hladun
Actuarial Consultant
Actuarial Division
OSFI
P.O. Box 39
121 King Street West
Toronto, ON M5H 3T9

Companies without earthquake exposure should submit a letter stating this fact.

Due to the change in the Cresta Zone definitions from that used in the current version of the form, some companies may not be able to complete the Total Sum Insured portion of the form and thus, not be able to calculate the default PMLs.

If this situation applies to your company, please indicate this in your filing and include a table showing the Total Sum Insured for each of the new Cresta Zones. Note that all information pertaining to the modeled PML must be completed from page 7 onward.

Also note that all companies using models must complete page 6 of the filing which consists of a description of the assumptions used in determining the modeled PML.

If you require more information, do not hesitate to contact Patricia Hladun at (416) 973-7010 or patricia.hladun@osfi-bsif.gc.ca.

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Just select your areas of interest, and when something is posted in that area, you will receive an email with a link to the relevant information.

What's New Online (www.osfi-bsif.gc.ca)

Solvency Information Return

For Administrators of Defined Benefit and Combination-type Pension Plans registered under the Pension Benefits Standards Act, 1985 (PBSA).

Annual Return Instructions for the Financial Instruments Accounting Standards

LIFE-1 Annual Return Instructions, LIFE-2 Annual Return Instructions, P&C-1 Annual Return Instructions, and P&C-2 Annual Return Instructions.

Regulations Amending the Assets (Foreign Companies)

The Regulations Amending the Assets (Foreign Companies) Regulations took effect on January 1, 2007 and are published in the December 27, 2006 issue of the Canada Gazette Part II (SOR/2006-348).

OSFI has terminated its December 2003 Agreement with CIBC

The Office of the Superintendent of Financial Institutions Canada (OSFI) terminated its December 2003 Agreement with the Canadian Imperial Bank of Commerce (CIBC) related to the bank's involvement with the Enron Corporation. The Agreement was terminated as of December 22, 2006.

The OSFI *Pillar*

The Pillar is published by the Communications and Public Affairs Division of the Office of the Superintendent of Financial Institutions Canada.

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